

CITY OF ROCK RAPIDS
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2012

De Noble & Company PC
Certified Public Accountants
Rock Rapids, Iowa

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City of Rock Rapids

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2012)		
Jason Chase	Mayor	January 1, 2012
Marlene Bowers	Council Member	January 1, 2012
Heather Stubbe	Council Member	January 1, 2012
Joe Vander Zee	Council Member	January 1, 2012
Justin Christensen	Council Member	January 1, 2014
Cody Hoefert	Council Member	January 1, 2014
Jordan Kordahl	City Administrator, Clerk and Treasurer	Indefinite
Linda Trei	Deputy City Clerk	Indefinite
Linda McCormack	Librarian	Indefinite
Carolyn Hein	Library Trustee	January 1, 2012
Ben Brink	Library Trustee	July 1, 2013
Dennis Haselhoff	Library Trustee	July 1, 2013
Jackie Austin	Library Trustee	July 1, 2015
Judy Gaspar	Library Trustee	July 1, 2015
Geneva Grooters	Library Trustee	July 1, 2015
Jennifer Elbert	Library Trustee	July 1, 2017
Michael R. Austin	City Attorney	Indefinite (Appointed)

City of Rock Rapids

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Beginning January 2012)		
Jason Chase	Mayor	January 1, 2014
Cody Hoefert	Council Member	January 1, 2014
Justin Christensen	Council Member	May 14, 2012 (Resigned)
Matt Oedekoven (Replaced Justin Christensen)	Council Member	January 1, 2014
Marlene Bowers	Council Member	January 1, 2016
Tami Murray	Council Member	January 1, 2016
Scott Schneidermann	Council Member	January 1, 2016
Jordan Kordahl	City Administrator, Clerk and Treasurer	Indefinite
Linda Trei	Deputy City Clerk	Indefinite
Linda McCormack	Librarian	Indefinite
Ben Brink	Library Trustee	July 1, 2013
Dennis Haselhoff	Library Trustee	July 1, 2013
Jackie Austin	Library Trustee	July 1, 2015
Judy Gaspar	Library Trustee	July 1, 2015
Geneva Grooters	Library Trustee	July 1, 2015
Jennifer Elbert	Library Trustee	July 1, 2017
Jaci Van Veldhuizen	Library Trustee	July 1, 2017
Michael R. Austin	City Attorney	Indefinite (Appointed)

DE NOBLE & COMPANY PC

Certified Public Accountants

MEMBERS

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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Rock Rapids, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These primary government financial statements are the responsibility of the City of Rock Rapids' management. Our responsibility is to express opinions on these primary government financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these primary government financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.


The financial statements referred to above include only the primary government of the City of Rock Rapids, Iowa, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which accounting principles prepared on the basis of accounting described in Note 1 require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Rock Rapids, Iowa, as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, each major fund and the aggregate remaining fund information for the primary government of the City of Rock Rapids, Iowa, as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2013 on our consideration of the City of Rock Rapids' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the primary government financial statements that collectively comprise the City of Rock Rapids' basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the primary government financial statements for the seven fiscal years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those primary government financial statements which were prepared in conformity with an other comprehensive basis of accounting. Siebrecht Spitler & De Noble PC (Siebrecht Spitler & De Noble PC was formally dissolved and De Noble & Company PC is one of the two new companies that was formed directly from this dissolution) previously audited, in accordance with the standards referred to in the second paragraph of this report, the primary government financial statements for the two fiscal years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those primary government financial statements which were prepared in conformity with an other comprehensive basis of accounting. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic primary government financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the primary government financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic primary government financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the primary government financial statements or to the primary government financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic primary government financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the primary government financial statements that collectively comprise the City of Rock Rapids' basic primary financial statements. Management's Discussion and Analysis and budgetary comparison information for the primary government on pages 5 through 11 and 26 through 28 are not required parts of the basic primary government financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.



De Noble & Company PC
Certified Public Accountants

February 25, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Rock Rapids provides this Management's Discussion and Analysis of its primary government financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the City's primary government financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 70.2%, or \$2,094,557, from fiscal 2011 to fiscal 2012. Charges for services decreased \$29,616; operating grants, contributions and restricted interest decreased \$52,621; property and other city tax decreased \$10,655; grants and contributions not restricted to specific purpose increased by 77,432; local option sales tax proceeds increased \$102,700; capital loan note proceeds increased \$2,060,000; and other general revenues decreased by \$18,957.
- Disbursements increased 38.5%, or \$1,280,303, in fiscal year 2012 from fiscal year 2011. The largest increase in disbursements was in Debt Service which increased by \$ 1,473,948; Capital Projects decreased by 208,381.
- The City's total cash basis net assets from governmental activities increased by 18.1%, or \$476,006, from June 30, 2011 to June 30, 2012. This increase is due primarily to an increase in the Capital Projects Fund due to the receipt of capital loan note proceeds, but not spending all the proceeds by the end of the fiscal year and the increase in local option sales tax proceeds allowed more money to be transferred to the General Fund which assisted in an increase in the General Fund's year end balance.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic primary government financial statements and provides an analytical overview of the City's financial activities.

The Government-Wide Financial Statement consists of a Statement of Activities and Net Assets – Primary Government. This statement provides information about the activities of the City's primary government as a whole and presents an overall view of the City's finances.

The Fund Financial Statement tells how governmental services were financed in the short term as well as what remains for future spending. Fund financial statement reports the City's primary government operations in more detail than the government-wide statement by providing information about the most significant primary government funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic primary government financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental funds of the City's primary government and the City's primary government indebtedness.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the primary government financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the primary government financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-Wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets – Primary Government reports information which helps answer this question.

The Statement of Activities and Net Assets – Primary Government presents the City's primary government net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets – Primary Government consists only of the City's governmental activities. Business type activities, consisting of electric, water, wastewater, gas and communications, are conducted by the Rock Rapids Municipal Utilities and reported separately. Business type activities are financed primarily by user charges. The Rock Rapids Municipal Utilities also maintains a Revolving Loan Fund that was established by a \$300,000 UDSA – Rural Economic Development Grant and a \$60,000 match from the Gas Utility Fund. To obtain the financial information on the Municipal Utilities, please contact the Municipal Utilities office. A copy of the Municipal Utilities' audit report is available for the public's review.

Governmental activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Program receipts; property taxes; tax increment financing; local option sales taxes; and grants and contributions not restricted to specific purposes finance most of these activities.

Fund Financial Statements

The primary government of the City of Rock Rapids uses governmental funds only. Proprietary funds are used to account for business type activities and, as noted above, are conducted by the Rock Rapids Municipal Utilities, which is reported separately.

Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: (1) the General Fund; (2) the Special Revenue Funds, such as Road Use Tax, Employee Benefits, Local Option Sales Tax, Urban Renewal Tax Increment, Revolving Loan and Library Memorial Trust; (3) the Debt Service Fund; (4) the Capital Projects Fund; and (5) the Permanent Funds, such as Library Endowment and Cemetery Perpetual Care. The governmental funds primary government financial statement provides a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Primary Government.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. Over the past year, the City's cash balance for primary government governmental activities increased from \$2,626,728 to \$3,102,724. The analysis that follows focuses on changes in cash basis net assets for governmental activities.

Changes in Cash Basis of Net Assets of Governmental Activities

	Year Ending June 30,	
	2012	2011
Receipts:		
Program Receipts:		
Charges for Service	\$ 449,496	\$ 479,112
Operating Grants, Contributions and Restricted Interest	352,031	404,652
Capital Grants, Contributions and Restricted Interest	219,645	224,433
General Receipts:		
Property and Other City Tax	1,312,327	1,322,982
Tax Increment Financing	175,765	177,782
Local Option Sales Tax	287,223	184,523
Capital Loan Note Proceeds	2,060,000	0
Grants and Contributions Not Restricted		
To Specific Purpose	155,623	78,191
Unrestricted Investment Earnings	8,762	6,682
Rents	30,701	27,456
Revolving Loan Principal Payments	15,492	31,163
Sale of Assets	0	16,575
Other General Receipts	11,820	30,777
Total Receipts	<u>5,078,885</u>	<u>2,984,328</u>
Disbursements:		
Public Safety	306,675	329,798
Public Works	638,716	665,723
Health and Social Services	1,603	0
Culture and Recreation	543,510	507,794
Community and Economic Development	404,324	372,628
General Government	188,599	192,748
Debt Service	2,037,238	563,290
Capital Projects	482,214	690,595
Total Disbursements	<u>4,602,879</u>	<u>3,322,576</u>
Increase (Decrease) in Cash Basis Net Assets	476,006	(338,248)
Cash Basis Net Assets Beginning of Year	<u>2,626,728</u>	<u>2,964,976</u>
Cash Basis Net Assets End of Year	<u>\$ 3,102,734</u>	<u>\$ 2,626,728</u>

The City's total receipts for governmental activities increased by 70.2%, or \$2,094,557. The total cost of all programs and services increased by \$1,280,303 or 38.5%. The increase in receipts was mainly the result of

an increase in capital loan note proceeds for financing of a street construction project and also, an increase in grants received from the Lyon County Riverboat Foundation.

The cost of all governmental activities this year was \$4,602,879, compared to \$3,322,576 last year. The increase in disbursements during the fiscal year was mainly due to the following: (1) an increase in bond payments due to the refunding of capital loan notes. This increase, in comparison to the previous year, was partially offset by the following: (1) a decrease in Capital Projects by \$ 208,381.

The amount taxpayers ultimately financed for these activities was only \$3,581,707, because some of the cost was paid by those who directly benefited from the programs (\$449,496) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$571,676). The City paid for the remaining "public benefit" portion of governmental activities with other receipts such as property taxes, tax increment financing, local option sales tax, general entitlements, unrestricted investment earnings, rents, revolving loan principal payments, sale of assets and other miscellaneous revenues.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Rock Rapids completed the year, its primary government governmental funds reported a combined cash balance of \$3,102,724, an increase of \$476,006 from last year's total of \$2,626,728. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased by \$151,729 from \$791,288 to \$943,017 at June 30, 2012. This compares to a \$125,682 increase in the prior fiscal year. Receipts and other financing sources increased from the prior fiscal year by \$162,258. This increase was mainly due to an increase of \$120,000 in transfers in from the Local Option Sales Tax Fund as well as an increase of \$64,066 in Property Tax. These increases were partially offset by decreases of \$25,035 for hail damage reimbursement and \$16,575 for the sale of old fire equipment and some real estate in the prior fiscal year. Disbursements and other financing uses increased from the prior fiscal year by \$136,157 due to the following: an increase of \$95,957 in the public works function due increases for airport improvements and airport fuel from the previous year; an increase of \$32,199 in the culture and recreation function due to increases for park improvements and tree planting from the previous year; an increase of \$36,678 in the community and economic development mainly due an increase in grant money received through the Lyon County Riverboat Foundation causing allowing more to be spent. These increases were partially offset by a decrease in the public safety function by \$24,233 due to the purchase of fire equipment in the prior fiscal year.
- The Special Revenue Road Use Tax Fund cash balance increased by \$36,515, from \$340,952 to \$377,467 at June 30, 2012. This compares to an \$89,710 decrease in the prior fiscal year. Receipts remained consistent but disbursements were able to decrease by \$127,985 during the fiscal year ended June 30, 2012.
- The Library Memorial Trust Fund increased by \$2,103 from \$340,359 to \$342,462 at June 30, 2012. This compares to an \$8,733 increase in the prior fiscal year. The reduction compared to the prior fiscal year due to fewer donations received and a decrease in interest earned.
- The Debt Service Fund cash balance decreased by \$37,468, from \$159,463 to \$121,995, at June 30, 2012. This compares to an increase by \$76,976 during the prior fiscal year. There was an increase in other financing sources from the prior fiscal year due to general obligation capital loan notes proceeds of \$1,460,000; the disbursements increased mainly due to increases in payments on long term debt principal and other financing uses increased due to the refunding of capital loan notes.
- The Capital Projects Fund cash balance increased \$286,195, from \$727,398 to \$1,013,593 at June 30, 2012. This compares to a decrease of \$518,327 the prior fiscal year. Receipts and other financing sources increased by \$596,141 mostly due to the receipt of \$600,000 in capital loan note proceeds that

was not all spent during the fiscal year. Disbursements decreased by \$208,381 due to decreases in street and sewer construction project costs.

BUDGETARY HIGHLIGHTS

The City amended its portion of the certified budget once during the year, on May 30, 2012. This amendment resulted in a net increase of \$640,000 in other financing sources, net and a net increase of \$440,000 in total budgeted disbursements for the City only portion of the budget. Please refer to the Rock Rapids Municipal Utilities audit report for budget amendments that affected the Utility's portion of the City's budget.

The reason for the increase in other financing sources, net was due to an overall increase in proceeds of debt for capital projects and debt refinancing. The reasons for the increase in budgeted operating disbursements were identified as follows: (1) Public Safety – increase for purchase of fire equipment; (2) Public Works – increases for purchase of road use equipment and airport improvements, partly offset by a decrease for snow removal; (3) Health and Social Services – increase for building inspection; (4) Culture and Recreation – increases for playground equipment, riverbank stabilization, cemetery tiling project, community center sound system, and swimming pool equipment; (5) Community and Economic Development – increase for tree removal; (6) Debt Service – increase for debt refinancing; (7) Capital Projects – increases for storm water control and street improvements.

Actual receipts came in \$78,791, or 2.5%, below budget for the City only portion of the certified budget. The primary reason for this was Intergovernmental Receipts came in \$213,168, or 34.6%, below budget due primarily to having budgeted for total receipts for Municipal Housing Agency, a separate legal entity, for which the City always includes an estimate for receipts and disbursements, but never includes any actual figures. This was partly offset by Local Option Sales Tax coming in \$106,635, or 59.0% above budget due to increased collections.

Disbursements came in \$852,472, or 21.1%, below budget. All functions came in below budget for the City only portion of the certified budget. Disbursements for Culture and Recreation came in \$193,109, or 26.2%, below budget due primarily to budgeting for park and community center improvements not completed during the fiscal year. Disbursements for Community and Economic Development came in \$252,712, or 38.5%, below budget due primarily to having budgeted for total disbursements for the Municipal Housing Agency, a separate legal entity, for which the City always includes an estimate for receipts and disbursements, but never includes any actual figures. Public Works, Capital Projects and Public Safety functions all came in well below the amount budgeted.

The net cash change for the fiscal year came in \$774,929 better than budgeted for the City only portion of the certified budget.

DEBT ADMINISTRATION

At June 30, 2012, the City had \$3,850,000 in notes, bonds and other long-term debt, compared to \$3,635,000 last year, as shown below:

Outstanding Debt at Year-End

<u>TYPE OF DEBT</u>	<u>June 30,</u>	
	<u>2012</u>	<u>2011</u>
General Obligation Capital Loan Notes	\$ 3,735,000	\$ 3,465,000
Grant Anticipation Capital Loan Notes	<u>115,000</u>	<u>170,000</u>
Total Long Term Debt	<u>\$ 3,850,000</u>	<u>\$ 3,635,000</u>

The City issued \$2,060,000 in General Obligation Capital Loan Notes during the 2012 fiscal year, of which \$600,000 is to be used for street and sewer construction projects, and \$1,460,000 for debt refunding with \$1,418,753 of the proceeds placed into escrow for future refunding of non-callable outstanding general obligation debt.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to five percent of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$3,735,000 (total debt of \$3,850,000 minus grant anticipation notes of \$115,000) is adequately below its constitutional debt limit of \$5,960,373.

More detailed information about the City's long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The elected and appointed officials and citizens of the City of Rock Rapids considered many factors when setting the fiscal year 2013 budget, tax rates and fees that will be charged for various City activities. Among these factors is the disparity between the tax obligations of residential and commercial/industrial property.

Under the rollback factor, residential property was taxed at 48.6% of actual value for the 2012 fiscal year and increases to 50.8%, for the 2013 fiscal year. Commercial and industrial property remains taxed at 100%, resulting in an ongoing, however, slightly decreasing, disparity between the rates for commercial and industrial property, respectively and the rate for residential property.

The resulting disproportionate share of taxes levied on commercial and industrial property adds to the challenges of competing with bordering states in economic development activities. As a remedy, a continuing increase, or freezing, of the residential rollback factor, coupled with a decrease in the commercial/industrial rollback factor, would bring the latter closer to the rates applicable to residential property.

In recent years, the City has worked to offset revenue decreases that result from tax rate reductions by implementing structural changes and greater reliance on alternate sources of revenue. While the regular tax rate will decrease by 2.0% from fiscal year 2012 to 2013, the regular taxable valuation (excluding Ag Land) increases by \$1,323,286, or 2.0%, resulting in a projected net increase of \$4,543 in property and other city tax revenues (excluding Local Option Sales Taxes). This helps to partially offset the actual decrease of \$10,633, or 0.8%, in property taxes collected for fiscal year 2012.

Although the General Fund ended the 2012 fiscal year with a cash surplus of approximately \$151,700, the City has budgeted for a drawdown of approximately \$102,300 for fiscal year 2013, due primarily to nonrecurring capital expenditures. This, along with cash surpluses accumulated during prior years, allows the City to maintain adequate operating reserves for future years.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jordan Kordahl, City Administrator, 310 South 3rd Avenue, Rock Rapids, Iowa 51246.

City of Rock Rapids
Basic Primary Government Financial Statements

City of Rock Rapids

Exhibit A

**Statement of Activities and Net Assets – Cash Basis
Primary Government**

As of and for the Year Ended June 30, 2012

		Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest	Governmental Activities
	Disbursements				
Functions/Programs:					
Governmental Activities:					
Public Safety	\$ 306,675	320	36,306	3,162	(266,887)
Public Works	638,716	255,959	242,853	0	(139,904)
Health and Social Services	1,603	0	0	0	(1,603)
Culture and Recreation	543,510	115,127	52,298	0	(376,085)
Community and Economic Development	404,324	6,977	11,313	0	(386,034)
General Government	188,599	9,020	6,662	0	(172,917)
Debt Service	2,037,238	62,093	2,599	65,751	(1,906,795)
Capital Projects	482,214	0	0	150,732	(331,482)
Total Governmental Activities	\$ 4,602,879	449,496	352,031	219,645	(3,581,707)
General Receipts:					
Property and Other City Tax Levied for:					683,010
General Purposes					219,990
Employee Benefits					409,327
Debt Service					175,765
Tax Increment Financing					

Local Option Sales Tax	287,223
Grants and Contributions not Restricted to Specific Purpose	155,623
Unrestricted Interest on Investments	8,762
Rents	30,701
Perpetual Cemetery Care - Sale of Lots	11,820
Revolving Loan Principal Payments	15,492
Capital Loan Notes Proceeds	<u>2,060,000</u>
Total General Receipts	<u>4,057,713</u>
Change in Cash Basis Net Assets	476,006
Cash Basis Net Assets Beginning of Year	<u>2,626,728</u>
Cash Basis Net Assets End of Year	<u>\$ 3,102,734</u>
Cash Basis Net Assets	
Restricted:	
Nonexpendable - Library Endowment & Cemetery Perpetual Care	\$ 68,600
Expendable -	
Road Use Tax (Streets)	377,467
Library Projects	342,462
Capital Projects	1,013,593
Debt Service	121,995
Other Purposes	235,600
Unrestricted	<u>943,017</u>
Total Cash Basis Net Assets	<u>\$ 3,102,734</u>

See Notes to Financial Statements.

City of Rock Rapids

Exhibit B

Statement of Cash Receipts, Disbursements, and Changes in Cash Balances
Governmental Funds
Primary Government

As of and for the Year Ended June 30, 2012

	Special Revenue					Nonmajor	
	General	Road Use Tax	Library Memorial Trust	Debt Service	Capital Projects	Governmental Funds	Total
Receipts:							
Property Tax	\$ 681,660	0	0	408,574	0	219,553	1,309,787
Tax Increment Financing	0	0	0	0	0	175,765	175,765
Other City Tax	1,350	0	0	753	0	287,660	289,763
Licenses and Permits	9,289	0	0	0	0	0	9,289
Use of Money and Property	35,660	4,806	3,413	3,350	6,450	3,535	57,214
Intergovernmental	161,813	241,775	0	0	0	0	403,588
Charges for Service	370,245	0	0	0	0	0	370,245
Special Assessments	0	331	0	62,093	0	0	62,424
Miscellaneous	101,546	2,570	0	65,000	144,282	27,412	340,810
Total Receipts	1,361,563	249,482	3,413	539,770	150,732	713,925	3,018,885
Disbursements:							
Operating:							
Public Safety	281,693	0	0	0	0	24,982	306,675
Public Works	373,461	212,967	0	0	0	52,288	638,716
Health and Social Services	1,603	0	0	0	0	0	1,603
Culture and Recreation	494,459	0	1,310	0	0	47,741	543,510
Community and Economic Development	174,256	0	0	0	0	230,068	404,324
General Government	154,362	0	0	0	0	34,237	188,599
Debt Service	0	0	0	618,485	0	0	618,485
Capital Projects	0	0	0	0	482,214	0	482,214
Total Disbursements	1,479,834	212,967	1,310	618,485	482,214	389,316	3,184,126

Excess (Deficiency) of Receipts Over (Under) Disbursements	(118,271)	36,515	2,103	(78,715)	(331,482)	324,609	(165,241)
Other Financing Sources (Uses):							
Capital Loan Notes Proceeds	0	0	0	1,460,000	600,000	0	2,060,000
Refunding of Capital Loan Notes	0	0	0	(1,418,753)	0	0	(1,418,753)
Sale of Capital Assets	0	0	0	0	0	0	0
Operating Transfers In	270,000	0	0	0	17,677	0	287,677
Operating Transfers Out	0	0	0	0	0	(287,677)	(287,677)
Total Other Financing Sources (Uses)	270,000	0	0	41,247	617,677	(287,677)	641,247
Net Change in Cash Balances	151,729	36,515	2,103	(37,468)	286,195	36,932	476,006
Cash Balances Beginning of Year	791,288	340,952	340,359	159,463	727,398	267,268	2,626,728
Cash Balances End of Year	\$ 943,017	377,467	342,462	121,995	1,013,593	304,200	3,102,734

Cash Basis Fund Balances

Nonspendable - Library Endowment & Cemetery Perpetual Care	0	0	0	0	0	68,600	68,600
Restricted for:						0	
Road Use Tax (Streets)	0	377,467	0	0	0	0	377,467
Library Projects	0	0	342,462	0	0	0	342,462
Debt Service	0	0	0	121,995		0	121,995
Capital Projects	0	0	0	0	1,013,593	0	1,013,593
Other Purposes	0	0	0	0	0	235,600	235,600
Committed	53,193	0	0	0	0	0	53,193
Assigned	443,629	0	0	0	0	0	443,629
Unassigned	446,195	0	0	0	0	0	446,195
Total Cash Basis Fund Balances	\$ 943,017	377,467	342,462	121,995	1,013,593	304,200	3,102,734

See Notes to Financial Statements.

City of Rock Rapids

Notes to Primary Government Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

The City of Rock Rapids is a political subdivision of the State of Iowa located in Lyon County. It was first incorporated in 1885 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services.

A. Reporting Entity

For financial reporting purposes, the City of Rock Rapids has included all funds, organizations, agencies, boards, commissions, and authorities of the primary government. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Rock Rapids (the primary government). As noted in the Independent Auditor's Report, the component units discussed below are not included in the financial statements. The primary government financial statements, because they do not include the financial data of component units of the City of Rock Rapids, do not purport to, and do not present fairly the cash basis financial position of the reporting entity of the City of Rock Rapids, Iowa, as of June 30, 2012, and the changes in cash basis financial position for the year then ended in conformity with the basis of accounting described here in Note 1.

Component Units – If it were not for the City of Rock Rapids preparing financial statements of the primary government only, the Rock Rapids Municipal Utilities and the Rock Rapids Municipal Housing Agency would be included as part of the City's reporting entity because of the significance of each organization's operational or financial relationship with the City. The Rock Rapids Municipal Utilities and the Rock Rapids Municipal Housing Agency would be presented as discretely presented component units in a separate column in the Statement of Activities and Net Assets – Cash Basis to emphasize that each is legally separate from the City, but are financially accountable to the City, or whose relationships with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete.

The Municipal Utilities is governed by a three-member board appointed by the Mayor and approved by the City Council and the Municipal Utilities operating budget is approved by the City Council. To obtain the financial information on the Municipal Utilities, please contact the Municipal Utilities' office. A copy of the Municipal Utilities' audit report is available for the public's review. The Rock Rapids Municipal Housing Agency is governed by a five-member board appointed by the Mayor and City Council and the City has the ability to impose its will on the Housing Agency by influencing the programs, projects, activities and level of services performed/provided by the Housing Agency. To obtain financial information on the Housing Agency, please contact the Chamber of Commerce/Municipal Housing office.

The City of Rock Rapids received \$108,343 from the Rock Rapids Municipal Utilities during the fiscal year ended June 30, 2012 (\$103,063 is intergovernmental receipts and \$5,280 is charges for service). Of the \$103,063 in intergovernmental receipts from the Rock Rapids Municipal Utilities, \$97,168 is donations and \$5,895 is a reimbursement for the Utilities share of a construction contract. The City of Rock Rapids paid the Rock Rapids Municipal Utilities \$5,000 for rent and \$11,805 for garbage/recycling billing and collection services. The Rock Rapids Municipal Utilities also made contributions to the City of Rock Rapids by paying for \$3,600 in park lights and \$143,719 through the Retrofit Street Lighting Project. The City of Rock Rapids also pays the Utilities for utility services and both entities charge each other for any occasional labor and materials provided to each other. The City of Rock Rapids received \$6,835 in intergovernmental receipts (payment in lieu of taxes) from the Rock Rapids Municipal Housing Agency during the fiscal year ended June 30, 2012. The City of Rock Rapids did not pay any money to the Rock Rapids Municipal Housing Agency during the fiscal year ended June 30, 2012.

Jointly Governed Organizations – The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Lyon County Assessor's Conference Board, Lyon County Joint E911 Service Board, Lyon County Emergency Management Commission, the Northwest Iowa Area Solid Waste Agency, the Lyon County Economic Development Consortium, the Northwest Iowa Regional Housing Authority and the Hazardous Material Response Commission (HAZMAT). During the fiscal year ended June 30, 2012, the City did not contribute any money to the Assessor, E911, Emergency Management, Economic Development Consortium, the Northwest Iowa Area Solid Waste Agency, the Northwest Iowa Regional Housing Authority or HAZMAT.

B. Basis of Presentation

Government-Wide Financial Statement – The Statement of Activities and Net Assets – Primary Government reports information on all of the nonfiduciary activities of the City's primary government. For the most part, the effect of interfund activity has been removed from this statement. This financial statement reports governmental activities which are supported to a significant extent by tax and intergovernmental revenues.

The Statement of Activities and Net Assets – Primary Government presents the City's primary government nonfiduciary net assets. Net assets are reported in the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Funds (the Library Endowment and Cemetery Perpetual Care Funds).

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation (Special Revenue Funds).

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified (General Fund).

The Statement of Activities and Net Assets – Primary Government demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statement – A separate financial statement is provided for the primary government governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statement. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Library Memorial Trust Fund is used to account for library projects financed by donations and investment income.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation and grant anticipation long-term debt.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and/or construction of major capital equipment and facilities for the City.

C. Measurement Focus and Basis of Accounting

The City of Rock Rapids maintains its financial records on the basis of cash receipts and disbursements and the primary government financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the primary government financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City may fund certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact (the City's Permanent Funds).

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation (the City's Special Revenue, Debt Service and Capital Projects Funds).

Committed – Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the Council through ordinance or resolution approved prior to year end. Committed amounts cannot be used for any other purpose unless the Council removes or changes the specified use by taking the same action it employed to commit those amounts (General Fund : Library purposes - \$53,193).

Assigned – Amounts the Council intends to use for specific purposes (General Fund: Community Center Purposes - \$52,890, Park Improvement Purposes - \$54,448, Fire Department Purposes - \$138,835, Airport Purposes - \$119,001, Lyon County Riverboat Foundation Receipts for Special Projects - \$58,454 and Trees Purposes - \$20,000).

Unassigned – All amounts not included in other spendable classifications (portion of the General Fund).

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements for the City of Rock Rapids only portion of the budget did not exceed the amounts budgeted in any function at the end of the fiscal year.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The City is authorized by statute and its written investment policy to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptance, certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) **Notes Receivable - Revolving Loan Fund**

The City established a Revolving Loan Fund for the purpose of lending monies for various economic development projects at a reasonable rate of interest to promote economic development within the City.

The notes issued are payable over ten years at 3.5% for the first five years and an adjustable rate for the last five years. The balances as of June 30, 2012 are computed as follows:

Balance on June 30, 2011	\$	76,192
New Notes Issued		40,000
Payments on Principal		<u>(15,492)</u>
Balance on June 30, 2012	\$	<u>100,700</u>

The following are the scheduled amounts of notes receivable principal (net of \$0 in allowance for doubtful accounts) coming due for the fiscal years ending:

June 30, 2013	\$ 12,198
June 30, 2014	12,007
June 30, 2015	12,434
June 30, 2016	11,008
June 30, 2017	10,857
June 30, 2018 and After	42,196
	<u>\$ 100,700</u>

Loans are carried as notes receivable until deemed uncollectible. As of June 30, 2012, no allowance for doubtful accounts has been recorded.

(4) Notes and Bonds Payable

Annual debt service/loan requirements to maturity for general obligation capital loan notes and grant anticipation capital loan notes are as follows:

Year Ended June 30	General Obligation Capital Loan Notes		Grant Anticipation Capital Loan Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 410,000	81,090	55,000	6,355	465,000	87,445
2014	345,000	68,993	60,000	3,330	405,000	72,323
2015	390,000	59,395	0	0	390,000	59,395
2016	390,000	54,173	0	0	390,000	54,173
2017	400,000	47,662	0	0	400,000	47,662
2018	410,000	40,462	0	0	410,000	40,462
2019	415,000	32,010	0	0	415,000	32,010
2020	375,000	22,490	0	0	375,000	22,490
2021	200,000	18,710	0	0	200,000	18,710
2022	200,000	14,710	0	0	200,000	14,710
2023	200,000	10,310	0	0	200,000	10,310
Total	\$ 3,735,000	450,005	115,000	9,635	3,850,000	459,690

During the fiscal year ended June 30, 2012, the City issued a \$2,060,000 general obligation note to pay for street improvements (\$600,000) and to refinance other outstanding general obligation bonds (\$1,460,000). The \$600,000 capital note was deposited into the Capital Projects Fund to be used for street projects. The \$1,460,000 capital note was deposited into the Debt Service Fund as refunding notes to payoff \$1,390,000 (plus interest) in outstanding debt on the 2008 G.O Capital Loan Notes. The 2008 G.O. Capital Loan Notes are not callable until June 2014, therefore, \$1,418,753 (reported as an other financing use) was placed in escrow with Bankers Trust (in state and local securities) to pay off these outstanding notes plus interest once the notes are callable. The bonds were sold at a discounted price of 98.3% of the principal amount.

During the fiscal year ended June 30, 2012, the City redeemed principal on general obligation capital loan notes of \$1,790,000 (\$400,000 in principal payments and \$1,390,000 in substance defeasance), paid \$136,476 in interest on the long-term debt and paid \$2,599 in note fees. The general obligation capital loan notes were redeemed through the Debt Service Fund in the fiscal year ended June 30, 2012.

The grant anticipation capital loan notes are to be repaid from an annual contribution in a minimum amount of \$55,000 to the City of Rock Rapids from the Trustees of the James W. and Ella B. Forster Charitable Trust. During the fiscal year ended June 30, 2012, the City redeemed principal of \$55,000 and paid 9,352 in interest on the grant anticipation capital loan notes. The grant anticipation capital loan notes were redeemed through the Debt Service Fund in the fiscal year June 30, 2012.

(5) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$42,964, \$32,253 and \$29,743, respectively, equal to the required contributions for each year.

(6) Other Postemployment Benefits (OPEB)

Plan Description. The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 11 active and no retired members participating in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark Blue Cross and Blue Shield of Iowa. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Funding Policy. The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$541 for single coverage and \$1,348 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the City contributed \$88,729 and plan members eligible for benefits contributed \$27,960 to the plan.

(7) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2012, primarily relating to the General and Road Use Tax Funds, is as follows:

Type of Benefit	Amount
Vacation	\$ 45,849
Sick Leave	21,926
Total	<u>\$ 68,775</u>

All of an employee's vacation is paid upon retirement, termination or death. If an employee, except a Library employee, has ten or more years of service with the City, 15% of sick leave is paid upon retirement, termination or death. No sick leave is paid upon retirement, termination or death for Library employees. The amount of sick leave reported above only includes sick leave hours for employees that have attained the ten years or more of service requirement.

This liability has been computed based on rates of pay in effect at June 30, 2012.

(8) Interfund Transfers

The detail of Interfund transfers for the year ended June 30, 2012 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Local Option Sales Tax	\$ 270,000
Special Revenue: Capital Projects	Special Revenue: Urban Renewal Tax Increment	17,677
Total		<u>\$ 287,677</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(9) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are mainly covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Please see "Findings Related to the Primary Government Financial Statements: 12-H" in regards to "hangar keepers coverage" for the airport.

(10) Employee Health Insurance Coverage

The City of Rock Rapids provides group health insurance coverage for eligible employees through Wellmark Blue Cross and Blue Shield of Iowa. The City assumes liability for claims against the insurance deductible of \$250 for the first \$500, and covers anything over that up to \$2,000 under an individual policy. The City covers \$500 for the first \$1,000, and covers anything over that up to \$4,000 for a family policy. The City's expense for insurance premiums and any deductibles paid for health insurance coverage is accounted for in the appropriate fund.

(11) Intergovernmental Agreement

The City has entered into an agreement with the Northwest Iowa Area Solid Waste Agency, a political subdivision created in accordance with Chapter 28E of the Code of Iowa, for disposal of solid waste produced or generated from within the City. There were no payments made during the fiscal year ended June 30, 2012.

State and federal laws and regulations require the Agency to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The closure and post closure costs to the Agency have been estimated at \$2,318,800 as of June 30, 2012 and the portion of the liability that has been recognized by the Agency as of June 30, 2012 is \$1,355,606. The estimated remaining life of the landfill is 27 years and the capacity used at June 30, 2012 is approximately 58 percent. The Agency has begun to accumulate resources to fund these costs. As of June 30, 2012, assets of \$1,514,198 are restricted for these purposes. The Agency has fully demonstrated financial assurance for closure and post closure case costs as required by Chapter 111 of the Iowa Administrative Code. No estimate has been made as to the possibility of any future assessments to the City.

(12) Commitments

In July 2011, the City approved a contract for construction of the Union Street Detention Basin project for \$142,656. As of June 30, 2012, the project was still in process. During fiscal year ended June 30, 2012 \$135,017 was paid to the contractor and \$7,639 was remaining to be paid on the contract. (See "Subsequent Events" below)

In March 2012, the City approved a contract for Green Street utility improvements for \$71,521 (after change orders). During the year ended June 30, 2012, \$54,570 was paid to the contractor, and \$16,951 was the remaining contract outstanding. (See "Subsequent Events" below)

In May 2012, the City approved a contract for a sound system for the Forster Community Center for \$43,535. As of June 30, 2012, the installation was still in process and the entire contract balance was outstanding. (See "Subsequent Events" below)

In May 2012, the City approved a contract for improvements at the Forster Community Center for \$9,492. As of June 30, 2012, the work on the improvements was still in process and the entire contract balance was outstanding. (See "Subsequent Events" below)

(13) Subsequent Events

Events that have occurred subsequent to June 30, 2012 until the date of the audit report include the following:

In August 2012, the City approved a change order for an increase of \$3,698 to the contract for the Union Street Detention Basin project and also, final payment for the project of \$7,639 from the Capital Projects Fund.

In September 2012, the City approved a construction contract for the Pearl Street Paving Improvement project for \$117,293 to be paid from the Capital Projects Fund.

In September 2012, the City paid \$9,492 from the General Fund for the contract for improvements to the Forster Community Center.

In November 2012, the City paid \$43,535 from the General Fund for the contract for installation of a sound system for the Forster Community Center.

In November 2012, the City approved to reimburse Lyon County \$176,893 in three equal annual payments of \$56,964 starting in fiscal year 2014 for the K-52 resurfacing project.

In December 2012, the City approved the final payment of \$16,951 from the Capital Projects Fund for the Greene Street Utility Extension project.

In December 2012, the City approved payment of \$107,799 from the Capital Projects Fund for the Pearl Street Paving Improvement project.

In January 2013, the City approved to authorize a loan from the Revolving Loan Fund in the amount of \$21,000 payable over 10 years at 3.5% for the first five years.

City of Rock Rapids

Other Information

City of Rock Rapids

**Budgetary Comparison Schedule of
Receipts, Disbursements and Changes in Balances –
Budget and Actual (Cash Basis) – All Governmental Funds
Primary Government**

Other Information

Year Ended June 30, 2012

	Governmental Funds Actual	Budgeted Original	Amounts Final	Final to Actual Variance
Receipts:				
Property Tax	\$ 1,309,787	1,311,550	1,311,550	(1,763)
Tax Increment Financing	175,765	163,081	163,081	12,684
Other City Tax	289,763	180,642	180,642	109,121
Licenses and Permits	9,289	11,000	11,000	(1,711)
Use of Money and Property	57,214	80,235	80,235	(23,021)
Intergovernmental	403,588	616,756	616,756	(213,168)
Charges for Service	370,245	298,675	298,675	71,570
Special Assessments	62,424	36,127	36,127	26,297
Miscellaneous	340,810	399,610	399,610	(58,800)
Total Receipts	3,018,885	3,097,676	3,097,676	(78,791)
Disbursements:				
Public Safety	306,675	353,098	402,098	95,422
Public Works	638,716	707,202	775,202	136,486
Health and Social Services	1,603	1,000	5,000	3,397
Culture and Recreation	543,510	635,619	736,619	193,109
Community and Economic Development	404,324	642,036	657,036	252,712
General Government	188,599	224,368	224,368	35,769
Debt Service	618,485	573,276	623,276	4,791
Capital Projects	482,214	460,000	613,000	130,786
Total Disbursements	3,184,126	3,596,599	4,036,599	852,472
Deficiency of Receipts Under Disbursements	(165,241)	(498,923)	(938,923)	773,682
Other Financing Sources, Net	641,247	0	640,000	1,247
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	476,006	(498,923)	(298,923)	774,929
Balances Beginning of Year	2,626,728	2,293,663	2,293,663	333,065
Balances End of Year	\$ 3,102,734	1,794,740	1,994,740	1,107,994

City of Rock Rapids

**Budgetary Comparison Schedule of
Receipts, Disbursements and Changes in Balances –
Budget and Actual (Cash Basis) – All Governmental Funds
Primary Government**

Other Information

Year Ended June 30, 2012

- Note: These figures do not reflect amounts included in the City's legally adopted budget for the Rock Rapids Municipal Utilities, which is a component unit that was audited separately. The amounts that were removed for the Rock Rapids Municipal Utilities from the original budget included \$4,361,423 in receipts (charges for service), \$4,132,441 in disbursements (business type activities), balance beginning of year of \$5,462,016 and balance end of year of \$5,690,998. The amounts that were removed for the Rock Rapids Municipal Utilities from the final amended budget included \$4,748,423 in receipts (charges for service), \$5,767,441 in disbursements (business type activities), balance beginning of year of \$5,462,016 and balance end of year of \$4,442,998.

See Accompanying Independent Auditor's Report.

City of Rock Rapids

Notes Other Information – Budgetary Reporting

June 30, 2012

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds (which there are none) for the City of Rock Rapids. The City's adopted budget includes the Rock Rapids Municipal Utilities, which is a legally separate component unit. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the fiscal year, there was one budget amendment on May 30, 2012 (City only portion of the budget: budgeted receipts did not change, budgeted disbursements increased by \$440,000 and other financing sources, net increased by \$640,000).

The Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds – Primary Government does not reflect the amounts included in the City's budget for the Rock Rapids Municipal Utilities. Please see the Rock Rapids Municipal Utilities audit report for information concerning budget to actual figures for the Municipal Utilities.

During the year ended June 30, 2012, disbursements did not exceed the final amended budget amount for any function of the City only portion of the certified budget. However, disbursements in the business type/enterprises activities function for the Rock Rapids Municipal Utilities exceeded the amount of the original adopted budget before the amended budget was approved by the City Council on May 30, 2012.

City of Rock Rapids
Supplementary Information

City of Rock Rapids

**Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds
Primary Government**

As of and for the Year Ended June 30, 2012

	Special Revenue				Permanent		Total
	Employee Benefits	Local Option Sales Tax	Urban Renewal Tax Increment	Revolving Loan Fund	Library Endowment	Cemetery Perpetual Care	
Receipts:							
Property Tax	\$ 219,553	0	0	0	0	0	219,553
Tax Increment Financing	0	0	175,765	0	0	0	175,765
Other City Tax	437	287,223	0	0	0	0	287,660
Use of Money and Property	0	0	0	3,535	0	0	3,535
Miscellaneous	0	0	0	15,692	0	11,720	27,412
Total Receipts	219,990	287,223	175,765	19,227	0	11,720	713,925
Disbursements:							
Operating:							
Public Safety	24,982	0	0	0	0	0	24,982
Public Works	52,288	0	0	0	0	0	52,288
Culture and Recreation	47,741	0	0	0	0	0	47,741
Community and Economic Development	39,046	0	150,872	40,150	0	0	230,068
General Government	34,237	0	0	0	0	0	34,237
Total Disbursements	198,294	0	150,872	40,150	0	0	389,316
Excess (Deficiency) of Receipts Over (Under) Disbursements	21,696	287,223	24,893	(20,923)	0	11,720	324,609
Other Financing Uses:							
Operating Transfers Out	0	(270,000)	(17,677)	0	0	0	(287,677)
Net Change in Cash Balances	21,696	17,223	7,216	(20,923)	0	11,720	36,932
Cash Balances Beginning of Year	83,822	34,523	10,937	81,106	2,000	54,880	267,268
Cash Balances End of Year	\$ 105,518	51,746	18,153	60,183	2,000	66,600	304,200

Cash Basis Fund Balances

Nonspendable: Library Endowment &

Cemetery Perpetual Care

Restricted for:

Other Purposes

Total Cash Basis Fund Balances

\$	0	0	0	0	2,000	66,600	68,600
	105,518	51,746	18,153	60,183	0	0	235,600
\$	105,518	51,746	18,153	60,183	2,000	66,600	304,200

See Accompanying Independent Auditor's Report.

City of Rock Rapids

Statement of Indebtedness – Primary Government

Year Ended June 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General Obligation Capital Loan Notes:									
Street Improvements	May 1, 2008	3.20-3.35%	\$ 2,550,000	\$ 1,990,000	0	1,585,000	405,000	100,576	0
Street Improvements	June 1, 2010	1.55-3.40%	1,675,000	1,475,000	0	205,000	1,270,000	35,900	0
Street Improvements	April 30, 2012	2.0%-2.35%	600,000	0	600,000	0	600,000	0	0
Refunding 2012B	April 30, 2012	0.8%-1.80%	1,460,000	0	1,460,000	0	1,460,000	0	0
Total				\$ 3,465,000	2,060,000	1,790,000	3,735,000	136,476	0
Grant Anticipation Capital Loan Notes:									
Forster Community Building	June 1, 1998	5.50-5.55%	\$ 670,000	\$ 170,000	0	55,000	115,000	9,352	0

See Accompanying Independent Auditor's Report.

City of Rock Rapids

Bond and Note Maturities – Primary Government

June 30, 2011

General Obligation Capital Loan Notes									
Year Ending June 30,	Street Improvements		Street Improvements		Refunding 2012B		Street Improvements		Totals
	Issued June 1, 2010		Issued May 1, 2008		Issued April 30, 2012		Issued April 30, 2012		
	Interest Rates	Amounts	Interest Rates	Amounts	Interest Rates	Amounts	Interest Rates	Amounts	
2013	1.55%	\$ 210,000	3.20%	200,000	-	0	-	0	\$ 410,000
2014	1.95%	140,000	3.35%	205,000	-	0	-	0	345,000
2015	2.25%	145,000	-	0	0.08%	245,000	-	0	390,000
2016	2.80%	145,000	-	0	1.0%	245,000	-	0	390,000
2017	2.80%	150,000	-	0	1.2%	250,000	-	0	400,000
2018	3.15%	155,000	-	0	1.4%	255,000	-	0	410,000
2019	3.40%	160,000	-	0	1.6%	255,000	-	0	415,000
2020	3.40%	165,000	-	0	1.8%	210,000	-	0	375,000
2021-2023	-	0	-	0	-	0	2.0-2.35%	600,000	600,000
		\$ 1,270,000	405,000		1,460,000		600,000		\$ 3,735,000

Grant Anticipation
Capital Loan NotesForster Community
Building

Issued June 1, 1998

Year Ending June 30,	Interest	
	Rates	Amounts
2013	5.50%	\$ 55,000
2014	5.55%	60,000
	Total	\$ 115,000

Schedule 4

City of Rock Rapids
Schedule of Receipts by Source and Disbursements by Function –
All Governmental Funds
Primary Government
For the Last Ten Years

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Receipts:										
Property Tax	\$ 1,309,787	1,320,420	1,148,455	1,243,128	1,204,514	1,281,476	1,143,078	1,181,996	1,188,762	1,004,626
Tax Increment Financing	175,765	177,782	124,264	116,926	106,300	97,323	58,816	65,530	59,727	25
Other City Tax	289,763	187,085	181,385	181,954	172,028	177,454	150,698	149,617	136,968	139,648
Licenses and Permits	9,289	8,594	7,354	10,424	10,685	10,183	10,309	10,032	7,618	7,680
Use of Money and Property	57,214	50,243	67,890	106,550	94,146	128,669	85,901	44,256	34,184	38,059
Intergovernmental*	403,588	546,418	518,490	854,690	454,564	569,711	631,132	502,983	722,305	559,510
Charges for Service	370,245	329,933	300,259	302,792	286,158	279,477	257,502	252,326	243,203	223,498
Special Assessments	62,424	118,360	361,821	26,282	3,292	4,565	3,414	3,915	25,120	107,964
Miscellaneous	340,810	228,918	184,592	114,904	142,721	153,097	277,009	123,193	185,300	136,677
Total Receipts	\$ 3,018,885	2,967,753	2,894,510	2,957,650	2,474,408	2,701,955	2,617,859	2,333,848	2,603,187	2,217,687
Disbursements:										
Operating:										
Public Safety	\$ 306,675	329,798	275,426	462,199	237,072	208,849	205,274	250,076	242,243	224,089
Public Works	638,716	665,723	885,920	499,689	602,819	461,370	507,579	449,503	601,982	412,233
Health and Social Services	1,603	0	0	0	0	0	0	0	0	0
Culture and Recreation	543,510	507,794	592,245	461,023	489,112	512,154	515,733	472,025	384,414	336,579
Community and Economic Development	404,324	372,628	290,526	252,009	224,259	210,810	332,804	239,382	370,103	58,903
General Government**	188,599	192,748	214,121	176,716	170,643	163,409	153,684	152,184	206,552	559,428
Debt Service	618,485	563,290	946,888	899,413	840,100	606,850	538,022	483,111	515,759	1,046,698
Capital Projects	482,214	690,595	1,107,806	1,952,377	432,012	577,829	61,206	183,434	95,876	616,287
Total Disbursements	\$ 3,184,126	3,322,576	4,312,932	4,703,426	2,996,017	2,741,271	2,314,302	2,229,715	2,416,929	3,254,217

*Intergovernmental includes a \$100,000 donation in 2007 and 2003 from the Rock Rapids Municipal Utilities that were reported as "special items".

**General Government include a \$ 277,300 donation in 2003 to the Rock Rapids Municipal Utilities that was reported as a 'special item'.

See Accompanying Independent Auditor's Report.

City of Rock Rapids

**Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial
Statements Performed in Accordance with
*Government Auditing Standards***

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Independent Auditor's Report on **Internal Control over Financial Reporting and on Compliance and Other Matters** **Based on an Audit of Financial Statements Performed in Accordance with** **Government Auditing Standards**

To the Honorable Mayor and Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Rock Rapids, Iowa, as of and for the fiscal year ended June 30, 2012, which collectively comprise the City's basic primary government financial statements listed in the table of contents, and have issued our report thereon dated February 25, 2013. Our report expressed unqualified opinions on the primary government financial statements which were prepared in conformity with another comprehensive basis of accounting. However, the financial statements referred to above include only the primary government of the City of Rock Rapids, Iowa, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which accounting principles prepared on the basis of accounting described in Note 1 require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Rock Rapids, Iowa, as of June 30, 2012, and the changes in cash basis financial position for the fiscal year then ended in conformity with the basis of accounting described in Note 1. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the City of Rock Rapids, Iowa, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Rock Rapids' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the primary government financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Rock Rapids' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Rock Rapids' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items 12-A, B, E, F, G, H and K to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items 12-C, D, I and J to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Rock Rapids' primary government financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the fiscal year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the primary government financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Rock Rapids' responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Rock Rapids' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Rock Rapids, Iowa and other parties to whom the City of Rock Rapids may report, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Rock Rapids during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

De Noble & Company PC

De Noble & Company PC
Certified Public Accountants

February 25, 2013

City of Rock Rapids

Schedule of Findings

Year Ended June 30, 2012

Findings Related to the Primary Government Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- 12-A Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the handling of cash and numerous recordkeeping functions are not entirely separated among employees.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. An independent person could be used to regularly approve time sheets, check paychecks for accuracy, verify vacation and sick leave, examine employee expense reimbursements, periodically examine investments, review invoices and review the financial records.

Response – We will continue to investigate the options we have within economic constraints and segregate duties to the extent possible with existing personnel. We have made arrangements to utilize the Rock Rapids Municipal Utilities personnel to prepare the bank reconciliations for our accounts.

Conclusion – Response accepted. It is important that you continue to attempt to implement the recommendations.

- 12-B Records of Accounts – The Library Board maintains the accounting records pertaining to the operations of the Library. These transactions are not recorded in complete detail in the Clerk's records (only the totals for the fiscal year are entered in the Clerk's records). Chapter 384.20 of the Code of Iowa states in part that "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose."

Recommendation – For better accountability, financial and budgetary control, all financial activity of all City accounts should be recorded in the Clerk's records.

Response – The financial activity and balances of the Library are subjected to annual audit and are handled by responsible individuals. No irregularities and only minor errors have ever been detected. If the Library Board has an individual who is willing and able to provide her services for no additional remuneration, the City Clerk will continue to review the Library Board's reports that are provided on a monthly basis as a form of control and enter the fiscal year totals in the Clerk's records.

Conclusion – Response acknowledged. The City of Rock Rapids is aware of our recommendation.

- 12-C Capital Assets/Inventory Records – Complete records for all capital assets (office equipment records have not been finalized) and inventory should be maintained and kept up-to-date. Capital assets are not all marked for identification purposes.

Recommendation – To facilitate the proper insurance, maintenance and safeguarding of these assets, such records should be established. A reconciliation of all property, equipment and inventory should be taken by an independent person at least once a year and compared against capital assets/inventory records. Capital assets should be marked for identification purposes to assist in the existence and accountability functions.

Response – We have completed the records for all areas to date other than office equipment. We will continue to work on compiling complete records and annually reviewing this list.

Conclusion – Response accepted.

- 12-D Off-Site Storage of Manual Records – There may be some benefit to having some of the manual records duplicated and the copies stored at an off-site location.

Recommendation – Sensitive manual records should be evaluated for needed protection and stored at an off-site location.

Response – We have created copies of records of certain records that are being stored off-site. We will continue evaluating manual records for what may need to be stored off-site.

Conclusion – Response accepted. Please do attempt to evaluate the manual records.

- 12-E Job Rotations – Financial personnel's duties are not always rotated for a period of time each fiscal year.

Recommendation – The City should consider the need for financial personnel (including the Library) to annually take a minimum amount of vacation time and each person's duties should be done by another employee when a person is on vacation. The City needs to have individuals who are trained in an employee's position in case of an emergency to provide backup support.

Response – We will continue to work toward being able to rotate duties within economic constraints. We attempt to minimize any potential problems in this area through supervisory review of job duties.

Conclusion – Response acknowledged. Please attempt to rotate financial personnel's duties on a regular basis. Please make sure the Library addresses this also.

- 12-F Management Procedures – Based on findings during the audit, we identified that there appears to be a lack of oversight by management over developing internal control, compliance and antifraud procedures and monitoring existing procedures that are in place to ensure the procedures are enforced.

Recommendation – City management needs to establish policies and procedures that ensure effective internal control, compliance and antifraud procedures are in place and monitored on a regular basis. City management needs to review any audit findings identified and assess the level of risk associated with each finding and incorporate this assessed level of risk into its development of policies and procedures.

Response – The City expects to completely resolve several recommendations and will continue to work on the other comments/recommendations within time constraints.

Conclusion – Response accepted.

- 12-G Payroll Time Sheets/Time Cards – Payroll time sheets/time cards are not being completed by all employees. We also noted instances where employee's time sheets/time cards are not being signed by the employee.

Recommendation – The City should consider the need to require all City personnel to sign their daily time sheets or time cards. All City time cards/sheets should have signature lines for the employee and the employee's direct supervisor that should be required to be completed before payroll is paid in order to attest to the accuracy of hours worked.

Response – Procedures have subsequently been established to require that time sheets and time cards are formally approved and signed by the employee's supervisor during payroll processing.

Conclusion – Response accepted. Please make sure the procedures are followed by all personnel.

- 12-H Insurance Policy – The City has received a recommendation from its insurance provider to require "hangarkeepers coverage" in the airport's fixed base operator lease. This is a separate policy that covers the aircraft that is being serviced or repaired by the lessee, as this is not covered by the general liability policy.

Recommendation – The City should consider the need to require an adequate amount of "hangarkeepers coverage" in its airport operator lease.

Response – The City will continue to evaluate the necessity to require "hangarkeepers coverage" in the airport's fixed base operator lease."

Conclusion – Response accepted. Please make sure your City Attorney and insurance agent are in agreement that the City has adequate coverage based on the risk the City is willing to accept.

- 12-I Accounting Procedures Manual – The City Library does not have an updated accounting procedures manual for the Library's accounting system.

Recommendation – An updated accounting procedures manual should be prepared, adopted by the Library Board and implemented for the Library's accounting system.

Response – We will work on updating the Library's accounting procedures manual.

Conclusion – Response accepted.

- 12-J Airport Fuel Sales Test – We noted that there is no procedures in place for reconciling and reviewing airport fuel sales, gallons purchased and gallons on hand on a consistent basis.

Recommendation – The City should implement procedures to reconcile the credit card sales statements received from the credit card companies to the deposits made into the bank accounts in order to be sure that all money is being properly deposited. Additionally, a reconciliation should be performed comparing the number of gallons purchased to the number of gallons sold; the reconciliation should be reviewed by the appropriate level of management for reasonableness.

Response – We will revisit the procedures for the airport fuel sales and fuel accountability in order to determine a better way to reconcile the airport fuel sales and fuel used.

Conclusion – Response accepted.

12-K Fire Department Vehicle/Fuel Usage – We noted that there was no review being performed of the fuel usage of the fire department. Vehicle/machinery mileage should be compared to fuel consumption on a regular basis.

Recommendation – The City should implement procedures to review the fuel usage of the fire department. Vehicle mileage should be compared to fuel consumption on a regular basis to verify reasonableness of mileage per gallon.

Response – We will implement your recommendation.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Rock Rapids
Schedule of Findings
Year Ended June 30, 2012

Other Findings Related to Required Statutory Reporting:

- 12-1 Certified Budget – Disbursements during the fiscal year ended June 30, 2012 did not exceed the amount budgeted in any of the functions for the City of Rock Rapids only portion of the certified budget. During the fiscal year ended June 30, 2012, disbursements did not exceed the final amended budget amount for any function of the City only portion of the certified budget. However, disbursements in the business type/enterprises activities function for the Rock Rapids Municipal Utilities exceeded the amount of the original adopted budget before the amended budget was approved by the City Council on May 30, 2012. Please see the Rock Rapids Municipal Utilities audit report for the reportable comment made concerning this deemed certified budget non-compliance.
- 12-2 Questionable Disbursements – We noted no disbursements which we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 12-3 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- 12-4 Business Transactions – No business transactions between the City and City officials or employees were noted.
- 12-5 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- 12-6 Council and Board Minutes – We noted that the Council had included in its resolution of interfund transfers amounts which were actually funds being designated by the council for specific purposes and were not actually transfers from another fund.
- Recommendation-The City should pass separate resolutions for Interfund transfers and restrictions on use of funds.
- Response- We will implement your recommendation.
- Conclusion- Response accepted.
- 12-7 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's written investment policy were noted.

- 12-8 Compilation of Ordinances – In accordance with Chapter 380.8 of the code of Iowa, the City must at least annually compile a supplement to the Code of Ordinances consisting of all new ordinances and amendments to ordinances which became effective during the fiscal year. We noted that the supplement to the Code of Ordinances did not include all ordinances adopted in fiscal year 2011/2012 and that the table of contents was not updated.
- Recommendation – The County should update the supplement to the Code of Ordinances annually as required by Chapter 380.8 of the Code of Iowa.
- Response – We will update the supplement to the Code of Ordinances and make sure the compilation of ordinances gets done timely in the future.
- 12-9 Federal Employment Filings – We noted personnel files which did not have the employee's Form I-9 or Form W-4 in the file.
- Recommendation – The City should implement procedures to ensure all required employment forms are being maintained for all employees.
- Response – We will get the required employment filings completed and put in each employee's personnel file.
- Conclusion – Response accepted.
- 12-10 Investment Policy – The City's investment policy has not been reviewed and approved by the Council in the last three years as required by the policy.
- Recommendation – The City needs to review and approve the investment policy. Additionally, procedures should be put in place to ensure that the policy is reviewed and approved by the Council at least every three years.
- Response – We will implement this recommendation.
- Conclusion – Response accepted.

City of Rock Rapids

Staff

This audit was performed by:

David De Noble, CPA, Senior Auditor
Carmen Austin, CPA, Senior Auditor
Kayla Reck, Assistant Auditor
Nathan Hoekstra, Assistant Auditor

De Noble & Company PC
Certified Public Accountants



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712/472-2511

NEWS RELEASE

Contact: Jordan Kordahl,
City Administrator
(712) 472-2553

FOR RELEASE: February 25, 2013

De Noble & Company PC today released an audit report on the City of Rock Rapids, Iowa.

The City's receipts totaled \$5,078,885 for the year ended June 30, 2012 a 70.2% increase from the prior year. The receipts included \$1,312,327 in property and other city tax, \$175,765 from tax increment financing collections, \$449,496 from charges for service, \$352,031 from operating grants, contributions and restricted interest, \$219,645 from capital grants, contributions and restricted interest, \$287,223 from local option sales tax, \$8,762 from unrestricted investment earnings, \$155,623 from grants and contributions not restricted to specific purposes, \$30,701 from rents, \$15,492 from revolving loan principal payments, \$2,060,000 from capital loan note proceeds, and \$11,820 from other general receipts.

Disbursements for the year totaled \$4,602,879, a 38.5% increase from the prior year, and included \$2,037,238 for debt service, \$638,716 for public works, \$543,510 for culture and recreation, and \$482,214 for capital projects.

The increase in receipts was mainly the result of the following: (1) capital loan note proceeds received in fiscal year 2012 for financing of street construction projects and for early retirement of outstanding bond issues; (2) an increase in grants and contributions not restricted to specific purpose due to grants received from the Lyon County Riverboat Foundation; and (3) an increase in Local Option Sales Tax receipts.

The increase in disbursements during the fiscal year was mainly due to an increase in bond payments due to the refunding of capital loan notes. This increase, was partially offset by a decrease in Capital Projects by \$208,381

A copy of the audit report is available for review in the City Administrator's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.